



**DEPARTMENT OF  
FINANCE**

**ARNOLD SCHWARZENEGGER, GOVERNOR**

915 L STREET ■ SACRAMENTO CA ■ 95814-3706 ■ WWW.DOF.CA.GOV

June 16, 2005

Ms. Joan Denton, Ph.D., Director  
California Office of Environmental Health  
Hazard Assessment  
1101 I Street, 25<sup>th</sup> Floor  
P.O. Box 4010  
Sacramento, CA 95812-4010

Dear Ms. Denton:

**Final Audit Report—California Office of Environmental Health Hazard Assessment—  
Internal Control Review**

Enclosed is our final report on the California Office of Environmental Health Hazard Assessment's (OEHHA) internal control as of February 25, 2005. The Department of Finance, Office of State Audits and Evaluations, performed this review in accordance with the Financial Integrity and State Manager's Accountability Act of 1983.

OEHHA's written response is included herein. Implementation of the proposed corrective actions will help strengthen OEHHA's internal control and reduce the risk of errors or irregularities.

We appreciate OEHHA's assistance and cooperation with our review. If you have any questions regarding this report, please contact Mary Kelly, Manager, or Richard Hebert, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by Samuel E. Hull

Samuel E. Hull, Chief  
Office of State Audits and Evaluations

Enclosure

cc: Mr. Val Siebal, Chief Deputy Director, California Office of Environmental Health Hazard Assessment  
Ms. Margie Leary, Deputy Director for Administration, California Office of Environmental Health Hazard Assessment  
Ms. Carolyn Lessing, Fiscal Officer, California Office of Environmental Health Hazard Assessment  
Ms. Ellie Luna, Manager, Contracts and Business Services, California Office of Environmental Health Hazard Assessment  
Ms. Donna Rowe, Chief, Human Resources, California Office of Environmental Health Hazard Assessment

AN INTERNAL CONTROL REVIEW

---

California Office of Environmental  
Health Hazard Assessment

Prepared By:  
Office of State Audits and Evaluations  
Department of Finance

## TABLE OF CONTENTS

---

Preface .....	iii
Executive Summary .....	v
Independent Auditor's Report .....	1
Findings and Recommendations.....	3
Conclusion.....	9
Auditee Response .....	10

The California Office of Environmental Health Hazard Assessment's (OEHHA) principal objective is to protect and enhance public health and the environment by objective scientific evaluation of the risks posed by hazardous substances. The OEHHA performs risk assessments for various programs under the California Environmental Protection Agency, as well as other state and local agencies. The OEHHA provides these agencies and programs with the scientific tools and information upon which to base risk management decisions. Distinct programs within OEHHA focus on assessing health risks (including sensitive sub-populations) from exposure to chemicals in air, water, food, consumer products, hazardous and municipal waste facilities, fish and shellfish, and sediments in bay and estuarine waters.

Under the Financial Integrity and State Manager's Accountability (FISMA) Act of 1983 (Government Code Section 13400 et seq.), state managers are required to maintain internal control over the programs administered by their agencies. Internal control is defined as a process designed to provide reasonable assurance regarding the achievement of objectives in the following categories: (a) reliability of financial reporting, (b) effectiveness and efficiency of operations, and (c) compliance with applicable laws and regulations. This definition of internal control includes five interrelated components:

- *Control environment* sets the tone of an organization, influencing the control consciousness of its staff. It is the foundation for all other components of internal control, providing discipline and structure.
- *Risk assessment* is the entity's identification and analysis of relevant risks to the achievement of its objectives, forming a basis for determining how the risks should be managed.
- *Control activities* are the policies and procedures that help ensure management directives are carried out.
- *Information and communication* are the identification, capture, and exchange of information in a form and time frame that enable people to carry out their responsibilities.
- *Monitoring* is the process that assesses the quality of internal control performance over time.

The objective of our internal control review was to assist the OEHHA in complying with FISMA. Specifically, we assisted the OEHHA in determining whether: (1) assets are safeguarded from unauthorized use or disposition, (2) financial transactions are executed in accordance with management's authorizations and recorded properly to permit the preparation of reliable financial statements, and (3) financial operations are conducted in accordance with State

Administrative Manual guidelines, and certain other federal and state laws and regulations, as well as the OEHHA's policies and procedures.

This report is intended for the information and use of the OEHHA and is not intended to be and should not be used by anyone other than the specified parties. However, this report is a matter of public record and its distribution is not limited.

**STAFF:**

Mary Kelly, CPA  
Manager

Richard Hebert  
Supervisor

Eric Pfof, CPA  
Lawana Welch  
Charles White

# EXECUTIVE SUMMARY

---

During our review of the California Office of Environmental Health Hazard Assessment's (OEHHA) internal control, we identified several areas where controls could be improved to reduce the risk of errors, irregularities, and material misstatements. We met with management and staff to discuss the following weaknesses, as well as other non-reportable findings and observations.

## **Material Weaknesses**

### *Property*

Controls over the accounting and recording of property are not sufficient to ensure the safeguarding of the state's assets or the reliability and integrity of data. Specifically, we found that:

- There were no written procedures tailored to guide staff in the implementation of the State Administrative Manual (SAM) property and fixed asset requirements.
- Separation of duties related to property controls were not in accordance with SAM guidelines.
- There were no consistent policies regarding the designation of items as fixed assets upon acquisition. The OEHHA did not use SAM criteria or develop its own consistent internal policies regarding affixing state property tags to equipment upon acquisition and recording the item into their fixed asset/property records.
- Results of physical inventories were not reconciled to the general ledger property accounts.
- OEHHA's Oakland office was not included in the latest physical property inventory.
- No property records were maintained as subsidiary ledgers to the general ledger property accounts.
- Physical inventory records did not include location of the property or the date observed.
- Surveyed property was not removed from the property records.

### *Cash Receipts*

- Cash receipts were not remitted to the State Treasurer's Office in a timely manner.
- Separation of duties is inadequate.
- Incorrect cash receipt dates were recorded on the Report of Deposits.
- Deposits of cash receipts were not verified by a supervisor.
- The State Treasurer's Office was not notified of deposits in excess of \$100,000 in any one day.

## **Other Reportable Weaknesses**

### *Cash Disbursements*

- Blank check stock was not adequately protected.
- Reconciling items were not cleared on the bank reconciliation in a timely manner.

### *Office Revolving Fund*

- Accountability over the petty cash fund was inadequate.

### *Personnel*

- Separating employee payroll warrant calculations were not approved by a supervisor.

### *Financial Reporting*

- Federal and state financial reports were not submitted within SAM deadlines.

For further analysis of the above mentioned weaknesses, see the Findings and Recommendations section of this report. This report is intended to assist OEHHA management in focusing attention on areas of risk and in strengthening internal control and improving operations.



## INDEPENDENT AUDITOR'S REPORT

Ms. Joan Denton, Ph.D., Director  
California Office of Environmental Health  
Hazard Assessment  
1101 I Street, 25<sup>th</sup> Floor  
P.O. Box 4010  
Sacramento, CA 95812-4010

We have reviewed the California Office of Environmental Health Hazard Assessment's (OEHHA) internal control as of February 25, 2005, for conformity with Government Code Section 13400 et seq. Our review included obtaining an understanding of the internal control through observations and interviews, testing and evaluating the design and operating effectiveness of the internal control, and performing other procedures we considered necessary.

OEHHA management is responsible for establishing and maintaining adequate internal control. This responsibility, in accordance with Government Code Section 13400 et seq., includes documenting internal control, communicating requirements to employees, and assuring that the internal control is functioning as prescribed. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures.

The objectives of internal control are to provide reasonable, but not absolute, assurance that:

- Assets are safeguarded against loss from unauthorized use or disposition.
- Transactions are executed in accordance with management's authorization, and recorded properly to permit the preparation of reliable financial statements.
- Financial operations are conducted in accordance with policies and procedures established in the State Administrative Manual.

Because of inherent limitations in internal control, misstatements due to error or fraud may occur and not be detected. Also, projection of any evaluation of internal control to future periods is subject to the risk that the internal control may become inadequate because of changes in conditions, or that the degree of compliance with policies or procedures may deteriorate.

In reviewing OEHHA's internal control as of February 25, 2005, we noted certain matters involving the internal control and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment,



could adversely affect the OEHHA's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a condition that precludes OEHHA's internal control from providing reasonable assurance that material misstatements in the financial statements will be prevented or detected on a timely basis. We believe the reportable conditions concerning fixed assets and cash receipts are material weaknesses. These weaknesses and other reportable conditions are described in the *Findings and Recommendations* section of this report.

This report is intended solely for the information and use of OEHHA management and is not intended to be, and should not be, used by anyone other than this intended party. However, this report is a matter of public record and its distribution is not limited.

Original signed by Samuel E. Hull

Samuel E. Hull, Chief  
Office of State Audits and Evaluations

February 25, 2005

## FINDINGS AND RECOMMENDATIONS

---

During our review of OEHHA's internal control, we identified several areas where controls were working as intended. We also identified areas where controls could be improved.

Our review of OEHHA's internal control will allow management to correct identified weaknesses and improve operations. We believe internal controls will be strengthened if management implements our recommendations. The internal control weaknesses, if left uncorrected, increase the risk that material errors or irregularities could occur and remain undetected.

The findings in this report are based on fieldwork performed between February 8, 2005 and February 25, 2005. We presented the findings to OEHHA's management on April 18, 2005.

### **FINDING 1                      Inadequate Property Controls**

Condition:                      A. The OEHHA does not have written procedures to guide staff in the implementation of the State Administrative Manual (SAM) property and fixed asset requirements.

Criteria:                        Government Code Section 13402 requires state agency heads to establish and maintain a system of internal accounting and administrative control. Government Code Section 13403(a)(3) states that a satisfactory system of internal control shall include a system of authorization and recordkeeping procedures adequate to provide effective accounting and administrative control.

Recommendation:            Draft and disseminate written procedures governing implementation of applicable SAM requirements.

Condition:                      B. Property accountability duties are not adequately separated. One staff member who participates in the inventory also receives and delivers property, stores undelivered property in a receiving/storage area, and participates in surveying unneeded property.

Criteria:                        SAM 8652 requires that the person in charge of the stockroom not be in charge of taking the physical inventory over property.

Recommendation:            Assign receiving and inventory functions in accordance with SAM requirements.

Condition:                      C. The OEHHA entered items into its fixed assets account without regard for whether the items met the SAM definition of a fixed asset. Accordingly, the OEHHA has no assurance that its fixed asset balance is accurate, or that items comprising the fixed asset balance are considered fixed assets. Further, since the OEHHA has no

procedures to identify which assets should be affixed with a property tag, property tags are affixed to equipment without adherence to state or agency internal policies.

- Criteria: SAM 8600 requires accurate accounting records to protect state property. SAM 8602 requires state property to be capitalized when it is: (1) used in state business, (2) has a useful life of one year or more, and (3) has an acquisition cost of \$5,000 or more. SAM 8651 requires all state property to be tagged, with a state property tag, after acquisition.
- Recommendation: Review the fixed assets account and delete items not meeting the current SAM definition of fixed assets. Prospectively, ensure that only items meeting the SAM definition are recorded as fixed assets. Draft and disseminate procedures regarding affixing property tags to OEHHA property.
- Condition: D. The OEHHA does not reconcile the results of its physical inventory to the general ledger. Comparison of physical inventory to the general ledger aids in the detection of unauthorized property disposal. Without this comparison, OEHHA increases the risk of loss or theft of fixed assets, and misstates the related asset accounts in its financial statements.
- Further, the OEHHA completed a physical property inventory of its headquarters office during the audit period but did not include the Oakland satellite office. Without an inventory of the Oakland office, OEHHA has an increased risk of loss or theft of fixed assets.
- Criteria: SAM 8652 requires departments to make a physical count of all property and reconcile the count with accounting records at least once every three years.
- Recommendation: Properly complete the physical inventory and perform the record reconciliation.
- Condition: E. The OEHHA does not maintain a property ledger that is subsidiary to the CALSTARS general property ledger (G05 report). Subsidiary ledgers aid in tracking property and reconciling physical inventories to general ledger property accounts.
- Criteria: SAM 7821 requires departments to maintain a property register that is subsidiary to the general ledger and SAM 7800 requires this register to be reconciled monthly to the general ledger.
- Recommendation: Establish and maintain a property register or other appropriate subsidiary property ledger.
- Condition: F. The last physical inventory taken by OEHHA did not record the date taken or the physical location of the items inventoried. Dates and locations of items increase accountability for the items and aid in detection of unauthorized use or disposal.

- Criteria: SAM 8652 requires inventory sheets to be dated. SAM 8600 states the purpose of property accounting is to provide accurate records for the control of property. Knowledge of a property's location is a basic requirement for adequate property control.
- Recommendation: Include property location and date of inventory on future inventory worksheets.
- Condition: G. The OEHHA does not delete property from its property ledgers after the property has been surveyed. By not removing surveyed property from its property records, OEHHA decreases assurance that the property reports are accurate and that authorized use or disposal will be detected.
- Criteria: SAM 8642 requires the property accounts to be reduced by the recorded cost of the surveyed property.
- Recommendation: Ensure that surveyed property is deleted from the property accounts.
- Condition: H. The OEHHA staff signed the Statement of General Fixed Assets (Report 19) as of June 30, 2004, including two footnote disclosures indicating that: (1) the OEHHA performs physical inventories at least once every three years, and (2) OEHHA's subsidiary fixed asset records are in agreement with the general ledger control accounts. These footnotes are not accurate as per the findings noted above.
- Criteria: SAM 8660 requires the Statement of General Fixed Assets to include the two footnotes noted above. This section, by implication, further requires that assertions made by the footnotes are true and accurate.
- Recommendation: Implement policies and procedures to ensure compliance with disclosures on the Statement of General Fixed Assets (Report 19).

## **FINDING 2                      Inadequate Controls Over Cash Receipts**

- Condition: A. Cash receipts are not remitted timely to the State Treasurer's Office (STO). Four of five remittance advices tested were remitted between 7 and 28 days late. Failure to remit collections precludes the State Controller from crediting the appropriate State funds and accounts for cash collections and may delay payments of agency claims and other disbursements if sufficient funds have not been credited.
- Criteria: SAM 8091 requires that deposits in excess of \$25,000 be remitted as soon as possible, but not later than the first day of the week following the receipt or accumulation.
- Recommendation: Remit cash collections to the STO in accordance with SAM.

Condition: B. The OEHHA has only two professional staff and one student assistant to perform the accounting work. While OEHHA has sought to separate the duties, weaknesses in separation of duties remain.

One staff member performs the following incompatible activities:

- Receiving and depositing remittances
- Inputting receipt information
- Reconciling input to output (CALSTARS)

A second staff member performs the following incompatible activities:

- Controlling blank check stock
- Initiating or preparing invoices

These weaknesses could result in unauthorized transactions and could lead to cash being misappropriated.

Criteria: SAM 8080.1 requires that accounting duties of: (1) receiving and depositing remittances, (2) inputting receipt information, (3) reconciling input to output, (4) controlling blank check stock, and (5) initiating or preparing invoices, should not be performed by the same individual.

Recommendation: Ensure adequate separation of duties, as required by SAM.

Condition: C. The OEHHA entered the date of deposit as the date of receipt on its Report of Collections. Therefore, the true date of receipt is unknown and the timeliness of OEHHA deposits cannot be evaluated.

Criteria: SAM 8032.1 states that departments are required to deposit receipts in a timely and economical manner.

Recommendation: Ensure the correct date of receipt is recorded on the Report of Deposit.

Condition: D. The cash receipts deposit is not verified by a supervisor, increasing the risk that deposits are made inaccurately or that shortages may go undetected or uncorrected.

Criteria: SAM 8032.3 requires the person supervising the person depositing cash to verify that receipts have been deposited intact.

Recommendation: Include a supervisory review in the cash receipts deposit procedures.

Condition: E. The OEHHA does not notify the STO of all deposits for any one account that are in excess of \$100,000 in any one day.

Criteria: SAM 8032.5 requires departments to notify the STO of all deposits being made when deposits for any one account are in excess of \$100,000 for any one day.

Recommendation: Notify the STO of daily deposits in excess of \$100,000 for a single account.

### **FINDING 3                      Inadequate Safeguards Over Blank Check Stock**

Condition: OEHHA's blank check custodian periodically releases more blank checks to the check preparer than are needed. This occurs because the mechanical check printer requires a certain length of unbroken check stock to operate. When the number of checks necessary to operate the printer exceeds the number of checks actually written, the surplus is stored in OEHHA's safe. The safe combination is known to staff other than the blank check stock custodian, allowing unauthorized staff access to blank check stock.

Criteria: SAM 8041 states that agencies will keep check stock under strict control at all times.

Recommendation: Establish and maintain a check register to track disposition of OEHHA checks. Ensure that no more blank checks are released to the check preparer than are actually needed. Develop procedures to adequately safeguard any unused blank checks.

### **FINDING 4                      Bank Reconciliation Procedures Need Improvement**

Condition: A. The OEHHA does not resolve its reconciling items during its accounting year-end closing process. We noted eight reconciling items that appeared on the June 2004 bank reconciliation that also appeared on the July 2004 bank reconciliation. One item has been outstanding since 1998 and another since 2000.

Criteria: SAM 8060 requires the bank reconciliation to be made promptly at the end of each month. SAM 7923 requires the person reconciling the bank statement to trace every reconciling item between the bank and agency's records, and include an explanation on the reconciliation.

Recommendation: Resolve all reconciling items as soon as possible but not later than the accounting year-end close process.

Condition: B. OEHHA's bank reconciliation for November 2004 was not dated by the preparer and the December 2004 bank reconciliation was not dated by the preparer, or signed and dated by the reviewer.

Criteria: SAM 7908 requires all reconciliations to show the preparer's name, reviewer's name, date prepared, and date reviewed.

Recommendation: Ensure that all bank reconciliations include the signature and date signed for the bank reconciliation preparer and reviewer.

**FINDING 5                      Lack of Accountability over the (Petty) Cash Change Fund**

- Condition:                      Ordinarily, as the Office Revolving Fund change fund is used, the currency diminishes but receipts related to the use of the fund accumulate, so that at any time currency plus receipts should equal the beginning change fund balance. During our count of OEHHA's petty cash fund, we noted that cash on hand plus invoices and receipts did not equal the amount advanced to the petty cash fund custodian per OEHHA accounting records.
- Criteria:                        SAM 8112.2 states that the change fund custodian is personally responsible for the amount advanced. SAM 8112.5 requires the change fund custodian to present invoices at least once a month, and based on these invoices, a check will be issued to replenish the change fund.
- Recommendation:            Currently, due to the amount of the change fund, OEHHA is required to conduct an annual count of the fund. OEHHA should implement multiple, random, and unscheduled change fund counts during the year to ensure that the custodian has maintained the change fund appropriately.

**FINDING 6                      Federal and State General Fund Financial Reports are Not Timely**

- Condition:                      The OEHHA submitted year end general fund report numbers 1, 2, 3, 4, 5, 7, 8, 15, and 22 on August 20, 2004, 20 days past the due date of July 31, 2004. The OEHHA submitted its federal financial reports on September 30, 2004, or more than 40 days after the due date of August 20, 2004.
- Criteria:                        SAM 7930 requires submission of above numerated general fund reports by July 31 of each year. The same section requires all other funds (e.g. federal funds) to be submitted by August 20 of each year.
- Recommendation:            Ensure that all year end financial reports are prepared and submitted by required deadlines.

**FINDING 7                      No Supervisory Approval of Separation Payroll Warrant Calculations**

- Condition:                      Two employees separated from the OEHHA during our audit period. For purposes of this report, separation means an employee leaves state service. We noted that for both separations, the final payroll warrant calculation was not reviewed by a supervisor prior to the warrant being released to the separating employee. Without a secondary review, the OEHHA has reduced assurance that the separation pay amount was accurately calculated and, if inaccurate, reduced the likelihood of recovery or offset because the employee has left state service.
- Criteria:                        SAM 8580.4 states that final warrants are not to be distributed to separating employees until the agency is assured that all outstanding travel and salary advances and other obligations have been cleared.
- Recommendation:            Ensure that all separation payroll warrant calculations are adequately reviewed prior to release of warrant.

## CONCLUSION

---

Our review of the OEHHA's internal control presents opportunities for OEHHA management to correct identified weaknesses and improve its operations. We believe internal control would be strengthened and the OEHHA would operate more effectively if OEHHA implements our recommendations. The reportable conditions, if left uncorrected, increase the risk that material errors or irregularities could occur and remain undetected, and the other material weaknesses, if left uncorrected could adversely affect the OEHHA's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

The findings in this report are based on fieldwork performed between February 8, 2005 and February 25, 2005. We presented these findings to the related staff at the completion of each cycle, to the Deputy Director for Administration at pre-exit conference meetings, and again during our exit conference on April 18, 2005.



## AUDITEE RESPONSE

---

# Office of Environmental Health Hazard Assessment

Joan E. Denton, Ph.D., Director  
Headquarters • 1001 I Street • Sacramento, California 95814  
Mailing Address: P.O. Box 4010 • Sacramento, California 95812-4010  
Oakland Office • Mailing Address: 1515 Clay Street, 16<sup>th</sup> Floor • Oakland, California 94612



Alan C. Lloyd, Ph.D.  
Agency Secretary



Arnold Schwarzenegger  
Governor

## MEMORANDUM

**TO:** Samuel E. Hull, Chief  
Office of State Audits and Evaluations  
915 L Street  
Sacramento, CA 95814

Original signed by Joan E. Denton

**FROM:** Joan E. Denton, Ph.D., Director

**DATE:** June 6, 2005

**SUBJECT:** RESPONSE TO DRAFT AUDIT REPORT—OFFICE OF ENVIRONMENTAL  
HEALTH HAZARD ASSESSMENT—INTERNAL CONTROL REVIEW

Thank you for the opportunity to respond to the Draft Audit Report on the Office of Environmental Health Hazard Assessment's (OEHA) Internal Control Review.

We are appreciative of the efforts of your audit team to assist OEHA in improving our internal controls and processes. As you may be aware, OEHA is a small department and over the last three years was required to reduce our workforce by 30% due to General Fund reductions. Unfortunately, our administrative overhead was significantly impacted, resulting in a reduction from three positions to two positions in our accounting unit, making it difficult to completely comply with all components (e.g. separation of duties) of the Financial Integrity and Manager's Accountability Act. However, this is not to say OEHA does not recognize a need to improve processes and procedures as outlined in the draft audit report. OEHA has already implemented many of your recommendations and is in the process of implementing the remainder. OEHA's responses to your specific findings are enclosed.

If I can be of further assistance, please don't hesitate to contact me at (916) 322-6325.

Enclosure

cc: Margie Leary  
Deputy Director for Administration  
Office of Environmental Health Hazard Assessment

California Environmental Protection Agency

*The energy challenge facing California is real. Every Californian needs to take immediate action to reduce energy consumption.*



Printed on Recycled Paper

# OFFICE OF ENVIRONMENTAL HEALTH HAZARD ASSESSMENT

## RESPONSE TO DRAFT AUDIT REPORT—INTERNAL CONTROL REVIEW

June 6, 2005

	Current Condition	Criteria	Recommendation	OEHHA's Response:
Finding 1	<b>Inadequate Property Controls</b>			
1.A	The OEHHA does not have written procedures to guide staff in the implementation of the State Administrative Manual (SAM) property and fixed asset requirements.	Govt Code Sections 13402, 13403(a)(3)	Draft and disseminate written procedures governing implementation of applicable SAM requirements.	OEHHA concurs with the recommendation and is drafting written procedures for inventory control and asset management per Government Code and SAM requirements. The draft document will be completed by September 30, 2005.
1.B	Property accountability duties are not adequately separated. One staff member who participates in the inventory also receives and delivers property, stores undelivered property in a receiving/storage area, and participates in surveying unneeded property.	SAM 8652	Assign receiving and inventory functions in accordance with SAM requirements.	OEHHA concurs with the recommendation and already re-assigned inventory functions in accordance with SAM section 8652. OEHHA will also complete the documentation and guidelines to describe the process for inventory control and asset management by September 30, 2005 including the separation of duties.
1.C	The OEHHA entered items into its fixed assets account without regard for whether the items met the SAM definition of a fixed asset. Accordingly, the OEHHA has no assurance that its fixed asset balance is accurate, or that items comprising the fixed asset balance are considered fixed assets. Further, since the OEHHA has no procedures to identify which assets should be affixed with a property tag, property tags are affixed to equipment without adherence to state or agency internal policies.	SAM 8600, 8602, 8651	Review the fixed assets account and delete items not meeting the current SAM definition of fixed assets. Prospectively, ensure that only items meeting the SAM definition are recorded as fixed assets. Draft and disseminate procedures regarding affixing property tags to OEHHA property.	OEHHA concurs and prior to fiscal year- end 2004/05, Accounting will adjust its fixed assets account balance to meet the SAM definition of a fixed asset.
1.D	The OEHHA does not reconcile the results of its physical inventory to the general ledger. Comparison of physical inventory to the general ledger aids in the detection of unauthorized property disposal. Without this comparison,	SAM 8652.	Properly complete the physical inventory and perform the record reconciliation.	OEHHA concurs and upon completion of June 2005 inventory, Business Services will work routinely with Accounting to ensure the physical inventory is reconciled with

# OFFICE OF ENVIRONMENTAL HEALTH HAZARD ASSESSMENT

## RESPONSE TO DRAFT AUDIT REPORT—INTERNAL CONTROL REVIEW

June 6, 2005

	OEHHA increases the risk of loss or theft of fixed assets, and misstates the related asset accounts in its financial statements. Further, the OEHHA completed a physical property inventory of its headquarters office during the audit period but did not include the Oakland satellite office. Without an inventory of the Oakland office, OEHHA has an increased risk of loss or theft of fixed assets.			accounting records. Accounting will maintain the general ledger account of fixed assets.
I.E	The OEHHA does not maintain a property ledger that is subsidiary to the CALSTARS general property ledger (G05 report). Subsidiary ledgers aid in tracking property and reconciling physical inventories to general ledger property accounts.	SAM 7821, 7800	Establish and maintain a property register or other appropriate subsidiary property ledger.	OEHHA concurs and upon completion of physical inventory (June 2005) and identification of fixed assets, OEHHA will establish and maintain a property register. The Accounting Office will maintain the G05 Report with the proper detail to aid in tracking property.
I.F	The last physical inventory taken by OEHHA did not record the date taken or the physical location of the items inventoried. Dates and locations of items increase accountability for the items and aid in detection of unauthorized use or disposal.	SAM 8652, 8600	Include property location and date of inventory on future inventory worksheets.	OEHHA concurs and will implement with the June 2005 inventory.
I.G	The OEHHA does not delete property from its property ledgers after the property has been surveyed. By not removing surveyed property from its property records, OEHHA decreases assurance that the property reports are accurate and that authorized use or disposal will be detected.	SAM 8642	Ensure that surveyed property is deleted from the property accounts.	OEHHA concurs and Accounting will reconcile the property ledger. If the reconciliation discloses incorrect classifications of items or other errors are disclosed, then the necessary adjustments will be made immediately with the approval of the Director's designee.
I.H	The OEHHA staff signed the Statement of General Fixed Assets (Report 19) as of June 30, 2004, including two footnote disclosures indicating that: (1) the OEHHA performs physical inventories at least once every three years, and (2) OEHHA's subsidiary fixed asset records are in agreement with the general ledger control accounts. These footnotes are not accurate as per the findings noted above.	SAM 8660	Implement policies and procedures to ensure compliance with disclosures on the Statement of General Fixed Assets (Report 19).	OEHHA concurs and upon completion of June 2005 inventory, will develop policies and procedures to ensure inventories are conducted at least every three years and subsidiary fixed asset records are in agreement with the general ledger control accounts.

# OFFICE OF ENVIRONMENTAL HEALTH HAZARD ASSESSMENT

## RESPONSE TO DRAFT AUDIT REPORT—INTERNAL CONTROL REVIEW

June 6, 2005

	Inadequate Controls Over Cash Receipts			
Finding 2				
2.A	Cash receipts are not remitted timely to the State Treasurer's Office (STO). Four of five remittance advices tested were remitted between 7 and 28 days late. Failure to remit collections precludes the State Controller from crediting the appropriate State funds and accounts for cash collections and may delay payments of agency claims and other disbursements if sufficient funds have not been credited.	SAM 8091	Remit cash collections to the STO in accordance with SAM.	OEHHA concurs and has rectified by remitting cash receipts weekly. All accumulated deposits of \$25,000 or more are remitted as soon as possible.
2.B	<p>The OEHHA has only two professional staff and one student assistant to perform the accounting work. While OEHHA has sought to separate the duties, weaknesses in separation of duties remain.</p> <p>One staff member performs the following incompatible activities:</p> <ul style="list-style-type: none"> <li>• Receiving and depositing remittances</li> <li>• Inputting receipt information</li> <li>• Reconciling input to output (CALSTARS)</li> </ul> <p>A second staff member performs the following incompatible activities:</p> <ul style="list-style-type: none"> <li>• Controlling blank check stock</li> <li>• Initiating or preparing invoices</li> </ul> <p>These weaknesses could result in unauthorized transactions and could lead to cash being misappropriated.</p>	SAM 8080.1	Ensure adequate separation of duties, as required by SAM.	<p>OEHHA concurs and has rectified by assigning the following activities to different units:</p> <ul style="list-style-type: none"> <li>• Receiving and depositing remittances – Office technician</li> <li>• Reconciling input to output (CALSTARS) - Budget Manager</li> <li>• Controlling blank check stock – Student Assistant</li> </ul>

# OFFICE OF ENVIRONMENTAL HEALTH HAZARD ASSESSMENT

## RESPONSE TO DRAFT AUDIT REPORT—INTERNAL CONTROL REVIEW

### June 6, 2005

2.C	The OEHHA entered the date of deposit as the date of receipt on its Report of Collections. Therefore, the true date of receipt is unknown and the timeliness of OEHHA deposits cannot be evaluated.	SAM 8032.1	Ensure the correct date of receipt is recorded on the Report of Deposit.	OEHHA concurs and has rectified by putting the date of deposit and the date of receipt on the Report of Collection. The date of receipt is necessary for timely remitting of cash and the date of deposit is necessary for CALSTARS reconciliation.
2.D	The cash receipts deposit is not verified by a supervisor, increasing the risk that deposits are made inaccurately or that shortages may go undetected or uncorrected.	SAM 8032.3	Include a supervisory review in the cash receipts deposit procedures.	OEHHA concurs and has rectified this finding. Cash receipt deposits are now verified and signed off by the budget manager before they are taken to the bank.
2.E	The OEHHA does not notify the STO of all deposits for any one account that are in excess of \$100,000 in anyone day.	SAM 8032.5	Notify the STO of daily deposits in excess of \$100,000 for a single account.	OEHHA concurs and has rectified this finding. The Office Technician calls the State Treasurer's Office (STO) for all deposits in excess of \$100,000 before going to the bank. At that time STO is given the deposit number and date of the expected deposit. Notation of time and date of call to STO is noted on the bank customer receipt.

OFFICE OF ENVIRONMENTAL HEALTH HAZARD ASSESSMENT  
RESPONSE TO DRAFT AUDIT REPORT—INTERNAL CONTROL REVIEW

June 6, 2005

Finding 3	<p><b>Inadequate Safeguards Over Blank Check Stock.</b> OEHHHA's blank check custodian periodically releases more blank checks to the check preparer than are needed. This occurs because the mechanical check printer requires a certain length of unbroken check stock to operate. When the number of checks necessary to operate the printer exceeds the number of checks actually written, the surplus is stored in OEHHHA's safe. The safe combination is known to staff other than the blank check stock custodian, allowing unauthorized staff access to blank check stock.</p>	SAM 8041	<p>Establish and maintain a check register to track disposition of OEHHHA checks. Ensure that no more blank checks are released to the check preparer than are actually needed. Develop procedures to adequately safeguard any unused blank checks.</p>	<p>Check register listing check numbers to track disposition of OEHHHA checks is already maintained. Check Transfer Register is stored with the blank check stock under lock and key. OEHHHA's Check Transfer Register records date back to June 1999. Previous records have been archived.</p> <p>Both the custodian and the recipient of released checks sign and date the Transfer Register to acknowledge the transfer and receipt of check stock. In addition to the Check Transfer Register, the Calstars Check Register Report CS0402-1 is kept on file with the other Calstars Reports. The CS0402-1 corresponds to OEHHHA's Check Mail/Distribution Log.</p> <p>OEHHHA's check custodian will release only the number of checks required for processing. When only one blank check stock is required, the blank check will be manually hand typed. This procedure will safeguard and prevent any misuse of blank check stock.</p>
-----------	--	----------	---	--

# OFFICE OF ENVIRONMENTAL HEALTH HAZARD ASSESSMENT

## RESPONSE TO DRAFT AUDIT REPORT—INTERNAL CONTROL REVIEW

### June 6, 2005

Finding 4	Bank Reconciliation Procedures Need Improvement			
4.A	The OEHHA does not resolve its reconciling items during its accounting year-end closing process. We noted eight reconciling items that appeared on the June 2004 bank reconciliation that also appeared on the July 2004 bank reconciliation. One item has been outstanding since 1998 and another since 2000.	SAM 8060, 7923	Resolve all reconciling items as soon as possible but not later than the accounting year-end close process.	OEHHA concurs. Per Sam Section 7923, accounting staff has researched reconciling items and are currently working toward resolving all reconciling items prior to the F.Y. 2004-05 year-end closing process. This will enable the accounting staff to meet SAM Section 8060 criteria to promptly reconcile accounts at the end of each month.
4.B	OEHHA's bank reconciliation for November 2004 was not dated by the preparer and the December 2004 bank reconciliation was not dated by the preparer, or signed and dated by the reviewer.	SAM 7908	Ensure that all bank reconciliations include the signature and date signed for the bank reconciliation preparer and reviewer.	OEHHA concurs. Per SAM Section 7908, bank reconciliation format has been revised to include the preparer's name, and date prepared. Staff will ensure that all bank reconciliations include the signatures and date signed for the bank reconciliation preparer and reviewer.
Finding 5	<b>Lack of Accountability over the (Petty) Cash Change Fund.</b> Ordinarily, as the Office Revolving Fund change fund is used, the currency diminishes but receipts related to the use of the fund accumulate, so that at any time currency plus receipts should equal the beginning change fund balance. During our count of OEHHA's petty cash fund, we noted that cash on hand plus invoices and receipts did not equal the amount advanced to the petty cash fund custodian per OEHHA accounting records.	SAM 8112.2, 8112.5	Currently, due to the amount of the change fund, OEHHA is required to conduct an annual count of the fund. OEHHA should implement multiple, random, and unscheduled change fund counts during the year to ensure that the custodian has maintained the change fund appropriately.	OEHHA rectified prior to the completion of the audit and will conduct random audits of the petty cash fund.
Finding 6	<b>Federal and State General Fund Financial Reports are Not Timely.</b> The OEHHA submitted year end general fund report numbers 1, 2, 3, 4, 6,7,8, 16, and 22 on August 20,2004, 20 days past the due date of July 31, 2004. The OEHHA submitted its federal financial reports on September 30, 2004, or more than 40 days after the due date of August 20, 2004.	SAM 7930	Ensure that all year-end financial reports are prepared and submitted by required deadlines.	OEHHA has continually received year-end awards from the State Controller's Office for our excellence in financial reporting, with the exception of F.Y. 03-04. However, OEHHA's number of Special Funds increased from one to seven in F.Y. 03-04, and the Accounting staff was reduced from three to two. In addition to



# OFFICE OF ENVIRONMENTAL HEALTH HAZARD ASSESSMENT

## RESPONSE TO DRAFT AUDIT REPORT—INTERNAL CONTROL REVIEW

June 6, 2005

				the workload associated with the new special funds. OEHHA had difficulties setting up the Federal Funds in Calstars. Also, with the loss of one position, there was a "learning curve" for the remaining two staff during the year-end process. Subsequently, the Accounting staff increased their knowledge and the quality of their day-to-day activities, which will assist in year-end reporting and timely submittal of year-end financial reports. Management will meet regularly with the Accounting staff to monitor the progress of year-end activities and review staff work on an ongoing basis.
Finding 7	<b>No Supervisory Approval of Separation Payroll Warrant Calculations.</b> Two employees separated from the OEHHA during our audit period. For purposes of this report, separation means an employee leaves state service. We noted that for both separations, the final payroll warrant calculation was not reviewed by a supervisor prior to the warrant being released to the separating employee. Without a secondary review, the OEHHA has reduced assurance that the separation pay amount was accurately calculated and, if inaccurate, reduced the likelihood of recovery or offset because the employee has left state service.	SAM 8580.4	Ensure that all separation payroll warrant calculations are adequately reviewed prior to release of warrant	OEHHA concurs and has rectified this finding. The Personnel Office has implemented a procedure, which includes a supervisory review and sign off sheet for Separation Payroll Warrant Calculations.